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C O N F I D E N T I A L SECTION 01 OF 02 BEIRUT 000527

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TAGS: ECON EFIN EINV LE

SUBJECT: MGLE01: VEIWS OF A HIGH-LEVEL GOL SKEPTIC OF THE ECONOMIC REFORM EFFORT

Classified By: Ambassador Jeffrey Feltman for Reasons 1.4 (b) and (d).

¶1. (C) Summary and Background. On February 17, Econoff discussed the GOL's economic reform agenda with the Director General of the Ministry of Finance, Alain Bifani. Bifani was critical of the GOL's economic reform efforts since October 2005, saying that initial optimism and good will had dissipated and that nothing significant had been done towards advancing the economic reform agenda recently. He said that from what he had seen of the reform document, it was little more than a copy of the Paris II document that was presented to donors in late 2002. According to Bifani, many members of the current "anti-Syrian" government coalition were until 2005 firmly in the "pro-Syrian" camp. In a separate conversation, the head of Banking Control Commission told us that capital inflows into the Lebanese banking system have eased the sense of urgency for economic reform. End Summary and Background.

REFORM EFFORT NEEDS MORE
TRANSPARENCY AND DISCUSSION

¶2. (C) Bifani was particularly critical of the lack of discussion of the reform agenda among Ministers and key stakeholders in the private sector. He said that it was difficult for Cabinet members to digest the series of power point presentations that his boss, Finance Minister Jihad Azour, had presented and that Ministers needed to look at a text document in order to offer the proper feedback. Bifani is concerned that the GOL doesn't know what it wants from reform or a donors' conference. He fears that if the GOL doesn't take the current opportunity to focus on significant structural and administrative reforms, any substantial donor inflows could be wasted.

¶3. (C) According to Bifani, the GOL desperately needs to change the way it hires Directors General and other high level positions. He said that, although the job posting for the Secretary General of the Higher Council on Privatization received 400 applications, two of the leading candidates whose names have been leaked to the press did not even apply for the job. He questioned how Directors General (DG) were hired and fired in Lebanon, asking how a competent DG like Ministry of Economy and Trade (MOET) DG Fadi Makki could have been dismissed "for no reason." When Econoff told Bifani that it was rumored that Makki had a personality conflict with his Minister, Sami Haddad, Bifani said that personality conflicts could result in the firing of almost all DGs,

including himself.

LEBANON CANNOT AFFORD
ANOTHER PARIS II

¶4. (C) Bifani has not been involved in the drafting of the economic reform agenda, despite his role as Director General at the Ministry of Finance. He has seen portions of the draft but has yet to be asked to provide substantial input into the document. His current role contrasts with his experience before the Paris II Donors Conference in 2002. Bifani told Econoff that he had provided some of the last minute financial analysis that was added to the document presented at Paris II. He said he and other colleagues at the Ministry of Finance were literally asked six hours before the presentation to add some financial numbers to what was largely a "history document" detailing the pain Lebanon had experienced as a result of the Lebanese Civil War. He said then PM Hariri had won a concession from World Bank President James Wolfensohn that World Bank analysts would be neutral on GOL Paris II efforts rather than critical of the lack of depth of the Paris II plan. Bifani said that he was surprised at the amount of money the GOL received and worried that many were expecting similar donations from a Beirut donors' conference. He does not believe that commercial banks will make available anywhere near the USD four billion in funds at zero percent interest that was made in Paris II. In the current context, there is no room for a further drop in interest rates as Lebanese interest rates are already low relative to international markets and banks will not be able to make USD 4 billion in capital gains from their contribution.

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GOL NEEDS
MORE TRANSPARENCY

¶5. (C) Bifani ridiculed the GOL cronyism involved in the USD 215 million court verdict that MP Nicholas Fattoush, a member of the Future Bloc, received in December 2005 for the illegal two-year closure of his family's sand and rock quarry. Bifani asked how Fattoush's company could be granted USD 215 million when his company has never reported any profits to the state during its operation and questioned how judges managed to return a verdict on Fattoush's suit in only eight months when many other business cases had languished for years. Bifani wanted to know why the judges involved in the case didn't ask for the Ministry of Finance's views before issuing such a large verdict. Bifani said that Fattoush had received a quick and substantial verdict because of his political connections and hinted that PM Siniora had influence with the judges. He asked how the GOL could expect the ordinary taxpayer to pay more in Value Added Taxes (VAT) when scandals such as this are still widespread.

PLENTY OF CAPITAL INFLOW;
NO URGENCY FOR REFORM

¶6. (C) On February 21, Walid Alameddine, head of the Banking Control Commission and number two at the Central Bank, offered some complementary views. In a meeting with DCM, he reported that capital inflows to the Lebanese banking system have been net positive in the amount of USD 2 billion since the February 2005 assassination of former Prime Minister Rafiq Hariri. He said that in the uncertainty following the assassination, about USD 2 billion left the country, but all that has since been recovered twice over and net assets now stand at USD two billion higher than they were a year ago. He attributed much of the inflow to deposits originating from Gulf countries. The overall effect of this, he said, was to diminish people's sense of urgency about reform. As long as the system can "get by" under present

financing practices and deposits continue to climb, "why worry" was the attitude of all too many people.

¶7. (C) Alameddine said that he himself was a fervent advocate of reform. DCM asked about financing practices that ultimately represent an annual ever-increasing government debt that grows by more or less the sums of annual fiscal deficits. Alameddine said that is exactly the problem: this cannot go on forever, "it has to stop." He further argued that the GOL must adopt a policy of growth, rather than simply cutting spending. Lebanon's human resources are not being tapped adequately, and this should be a focus of reform. He commented that the banking sector is now led by a new and much more dynamic Chairman of the Association of Lebanese Banks, Francois Bassil, chairman of Byblos bank, and the sector may have someuseful views to put forward on reform. As for the situation of Lebanon's banks, he said that this past year's banking sector profits of USD 450 million on total deposits of USD 58 billion did not represent a particularly high rate of return.

COMMENT

¶8. (C) Many critics of PM Siniora share some of Bifani's views, but very few people at high levels in the Ministries of Finance and of Economy and Trade will speak to bluntly. Bifani has not always been on good terms with the current Finance Minister Azour and PM Siniora (a former Finance Minister) and he clearly feels "frozen out" of current GOL economic decisions. He told Econoff that the press had "all of a sudden" decided PM Siniora "was a statesman" and chose to disregard negative stories about his character. It is rare to see a Director General express such criticism of a program and a Prime Minister he is supposed to support, and Bifani told Econoff after our discussion that he had probably said "too much" and regretted some of his statements. We asked Alameddine discreetly about Bifani's role in reform these days; Alameddine replied that the reform project is a rather closed operation. He also implied that relations between Azour and were not the best. End Comment.

FELTMAN